

Washington, DC — Congressman Joe Sestak voted to support the proposal that would ensure his constituents do not face the unavailability of affordable car, education, small business and other consumer loans, by intervening in troubled financial institutions that are undergoing a credit freeze. Yesterday, the Congressman voted for, but the House did not pass, “The Emergency Economic Stabilization Act of 2008”. The bill failed on a vote of 205 – 228 as two-thirds of the Republican members voted no.

Congressman Sestak said, “Not acting is already gravely harming our economy and risks creating a deep, protracted recession. I believe that we must take action to remove the dead weights that are pulling down our economy, contributing to job losses for 605,000 Americans this year, declines in house sales by more than 20%, car sales by more than 10%, and foreclosures for 1 million American families, with the outlook for millions more. Unless strong, decisive action is taken quickly, almost certainly, we face the prospect of severely damaging credit availability for many of my constituents who need financing for a home, education, car, small business, or other kinds of consumer loans.”

Congressman Sestak has been focused on the developing financial crisis since February when the Pennsylvania Higher Education Assistance Agency (PHEAA) met to alert him to the issues it was facing in the credit markets and the risk to student loan availability. At that time, the Congressman wrote to Mr. Henry M. Paulson, Jr., Secretary of the Treasury, and Mr. Ben S. Bernanke, Chairman of the Federal Reserve Board, expressing his concerns about the widespread capital market disruption and asking that they get in front of the issue by direct action into the market. Chairman Bernanke responded that the “most important contribution that the Federal Reserve can make ... is to foster the restoration of more-normal functioning in financial markets more generally.” The Congressman disagreed, believing much greater oversight and accountability was needed along with direct actions to provide more liquidity in the markets at that time.

Unfortunately, over the last seven months, the market stability and liquidity did not come back. Instead, what began with foreclosures in sub-prime mortgages over a year ago, has now engulfed and devastated a growing number of financial institutions causing a freeze and/or prohibitive rates for credit. A week and a half ago, during a call with Secretary Paulson and Chairman Bernanke, they admitted that this was the worst financial crisis since World War II – that means the Great Depression. The Congressman agrees that the financial markets have become effectively frozen because of the widespread loss of confidence in our lending process—as a result of the “toxic” mortgage securities of questionable value that so many institutions of lending now own.

Congressman Sestak said, "It is important to understand that this is not about saving banks for themselves; rather, it is about preventing economic harm to my constituents if banks continue to fail, or will only provide credit that is unaffordable." The Congressman has already heard from a number of his constituents that their companies with good credit ratings are not able to get short-term loans to cover expansion or seasonal inventory needs, and that their sales have stalled. And he has heard from consumers, that mortgage and auto lending standards have become tougher even for those who have the best credit quality. And for those who can find a loan to buy a home or a car, the costs have increased from last year -- and they will keep on going up and becoming less available if action is not taken.

Over the last ten days, a bi-partisan group of Members of Congress worked to take the original three-page proposal offered by Secretary Paulson -- which the Congressman found inadequate as did many Members of both parties -- and construct an effective, workable, and accountable plan that does the above, most importantly, by protecting the tax-payer. The Congressman believed that the bill included actions that were carefully targeted to

- address the real issues;
 - provide the appropriate oversight and accountability;
 - ensure that financial executives are not unfairly compensated;
 - help homeowners who have legitimate mortgages and do deserve to stay in their homes;
- and
- allow the American taxpayers to reap the rewards when markets recover through the US Government's participation in warrants or other options which ensure the government gets a share of future profits when firms recover, or the troubled mortgage securities we purchase come up in value once again.
 - The Congressman also believes that we need a comprehensive overhaul of our financial regulatory structure, although this will require several months to develop beginning this coming month.

Key points of the bill:

Objectives and Actions To Be Taken:

1. The first objective was to provide market stability preventing further disruption to the financial markets and banking system by once again ensuring there is liquidity (enough cash to make loans and pay one's debts) in the credit market. The actions taken to do this included:

- Providing the U.S. Treasury the authority to purchase, manage, and ultimately sell for a potential profit troubled mortgage and mortgage related securities -- because, the U.S. Treasury

is the only institution with the capital to take such an action at this time.

- The authority would only be provided in “installments” – starting with \$250 billion upon enactment of the bill; another \$100 billion, if necessary, with Presidential notification; and with the final \$350 billion requiring further Presidential notification to Congress for its review, and disapproval, if appropriate.

2. The principal objective was to protect the interests of American taxpayers from the impact on the economy, their jobs, personal savings and pensions, and enabling the opportunity to maximize returns to the taxpayers by ensuring the government shares in the profit rewards as mortgage security and financial institutions regain their value.

3. The bill also focused on minimizing mortgage foreclosures to break the cycle of mortgage foreclosures and falling house prices that are leading to more foreclosures—which means less capital available for credit – while maximizing the opportunity for U.S. taxpayers who have legitimate mortgages to remain in their homes, but only by the US Government getting a share of the profit in the home’s future resale.

4. The bill included provisions to develop as quickly as possible a comprehensive restructuring of the financial regulatory system. In short, we must put the referee back on the football field.

The bill’s provisions ensured the consumer and taxpayer benefits, and not the executives of failing institutions, per the following:

A. Oversight and Accountability on Purchase of Troubled Assets:

The Congressman took aboard the comments that so many of his constituents made when contacting his office about the lack of oversight and accountability in the original Paulson proposal. Therefore:

- From the beginning, it was clear that there must be proper oversight, accountability, and transparency in the implementation of the plan – especially in the area of the purchase and pricing for these troubled assets. The provisions include four independent oversight entities or processes to protect the taxpayer:

- A Financial Stability Oversight Board, a Credit Review Committee, and a Congressional Oversight Panel to be created with reporting before, and repeatedly after, the first transactions are initiated. In addition, a new Inspector General is to be established, specifically to monitor

the Troubled Asset Relief Program (the program for the actual purchase and sale of mortgage securities, equity investments in financial institutions, etc.). Also, the U.S. General Accountability Office (GAO) is to provide oversight and audits at Treasury.

- Controls are to be put in place to eliminate the potential for any conflict of interest between those involved in overseeing and executing this program and those financial institutions involved.

- To ensure accountability, the Federal Bureau of Investigation (FBI) will proceed with investigations and prosecutions in areas where fraud, misrepresentation or other criminal activity is suspected. Investigations have already begun into Fannie Mae, Freddie Mac, Lehman Brothers Holdings, and American International Group (AIG). Last week, the FBI confirmed that they are looking at 26 cases of potential corporate fraud, with the number rising as further facts become clear.

B. Protecting Taxpayer Interests

The Congressman was also concerned - as were many of his constituents – with Secretary Paulson’s original proposal which gave the Secretary of the Treasury complete authority over all of the \$700 billion at once. The original proposal also made no provision in the future for the taxpayer to recoup the government’s investment by sharing in any profit as the financial industry eventually rebounds. Therefore:

- The original request for purchase authority of \$700 billion was divided into three potential “installments.” Initially, the Secretary of the Treasury was to be authorized for \$250 billion of purchase commitments, with \$100 billion available following Presidential certification of need, and the balance of \$350 billion conditional upon further Congressional review.

- In addition, the bill would establish a program that would allow companies to insure their troubled assets. In this case, at the request of a financial institution, the Secretary of the Treasury could guarantee timely payments of principal and interest. However any such guarantees are counted against the total \$700 billion allowed.

- Importantly, the bill included long-term financial incentives so that American tax payers share in any profit when the markets recover. This would come through various forms of equity participation, including warrants, debt or through the rights to recover assets if a company fails. In short, when the government invests in a company or security, it would mandate a right to further share in the profits as the company rebounds and the security regains its value.

- The bill also required that if—at the end of the five years—the Government had not redeemed all of its investment in profits, the President must submit a plan to ensure taxpayers are repaid in full, by having the financial industry cover the remaining shortfall.

C. Limits on executive compensation:

Again, many of the Congressman's constituents were concerned with the large levels of compensation executives could receive from this effort. Therefore:

- To ensure that there is not unfair compensation for executives of participating financial institutions that have troubled assets, for those companies selling over \$300 million in such assets through a public auction, there was a prohibition on "golden parachutes" for the top 5 executives. There would also be an end to the tax deduction for executive compensation over \$500,000.
- For companies from which the government makes a direct purchase of troubled assets, there were to be no multi-million dollar "golden parachutes"; limits on CEO compensation that – in the past -- encouraged unnecessary risk-taking; and recovery of bonuses paid to executives based on statements that later turn out to be false or inaccurate

D. Protecting homeowners and investors in money market funds

The Congressman also had concerns that if a number of homes in the neighborhoods suddenly go empty, and the property tax goes unpaid, and no one has the credit to purchase the vacant houses, everyone's property values will be diminished, and there will be a devastating effect on the schools and community protection services. Therefore:

- Because the Treasury would purchase mortgage securities in this program, the government has the right to the interest and principal homeowners pay. The Government's financial interest would provide it leverage to work directly with mortgage servicers to change the terms of mortgages – including reducing principal or interest rates, lengthen the time to repay the mortgage—to stop the tremendous pace of foreclosures and restore the viability of the financial market. This would help reduce the potential 2 million foreclosures that could happen otherwise in the next year.
- This program would build on the law passed earlier this year which allows for mortgages to be restructured under the Federal Housing Administration (FHA) program if both the lender and the homeowner participate by both accepting losses to 75% of today's market value in return for a fixed interest rate backed by government insurance—but with the government sharing in at least 50% of any gain on the refinancing or resale of the house.
- In addition, the Treasury would be able to use loan guarantees or credit enhancements to prevent avoidable foreclosures, and in order to protect investors in 401k and other retirement and savings plans, the Treasury will establish a temporary insurance or guarantee program for money market mutual funds.

Congressman Sestak said, "This crisis has come about through a number of factors, but first and foremost, I believe it has been the fact that we have taken the referee off the football field. The types of regulatory oversight that could have prevented this crisis were not available or they

were not enforced when they were in place.”

People took mortgages at times that were more risky than they should have taken, and proper credit practices by some mortgage companies/ brokers were not followed. But then these mortgages were bundled together, sold off as mortgage-backed securities, re-bundled and then sold again. Financial institutions eventually had these securities with no transparency regarding the real credit worthiness of the underlying mortgages. They bought what they thought were AAA rated assets—or else did not do due diligence to check-- but over time, with rising foreclosures and falling house prices, the value of the assets was significantly reduced and-- with deeply devalued mortgage securities on their books-- banks had less capital to lend.

The Congressman believes that we do need new oversight and regulation in place to prevent this from happening again. And there needs to be accountability for the people who should not have gotten the mortgages they did, for the people who were bundling these mortgages without regard to the real credit quality, and for the financial executives who bought these securities without sufficient inquiry.

He also pointed out a number of recent actions that supported his decision to vote for the bill:

- Last week alone, the Federal Reserve lent \$200 billion to U.S. banks that were unable to get loans from other banks because their fellow banks were fearful of lending concerns. The Federal Reserve also made available \$290 billion to foreign banks to prevent a globalization of this financial crisis.
- That’s nearly \$500 billion in one week – an historic high – made available from the financial vaults of the Federal Reserve. This is a financial storm and these were \$500 billion “buckets” trying to bail us out, rather than getting at the real root of the problem.
- Secondly, this week, Wachovia Bank was saved from collapse through a government orchestrated buy-out from Citigroup. Wachovia is a bank that has operated throughout the Congressman’s district, and many people have kept their savings, their pensions, and other investments in this bank. Fortunately, the FDIC stepped in and worked with Citigroup. It is predicted now that more than 300 banks will fail.
- And, as mentioned earlier, the actions taken by PHEAA to stop making education loans in Pennsylvania.

These are just a few examples of a financial storm that is already affecting the Congressman’s district. He believes that based on the compelling evidence, that if action is not taken, it will be exponentially worse. If banks are not able to lend to small businesses at rates they can afford,

unemployment-- which is at 6.1%-- will rise even further as people get laid off; their family incomes will then decrease; and they will be unable to afford their mortgages, or the increasing cost of car, education and other types of loans.

This bill would also enable the necessary actions to have financial institutions lend again and to stop the spiraling cycle of foreclosures—at a profit to the government. The Congressman quoted an adage of the ancient mariner who said of a natural storm “woe be the seaman who does not take precautions lest they might prove unnecessary”. The dramatic 778 point fall of the stock market after the bill failed—and its impact upon the pensions, 401K plans, and savings of the Congressman’s constituents—makes this bill a necessary one. He strongly believes it is unwise not to take this precaution now for this man-made financial storm. As one of the lawmakers of this nation, and as a custodian of this national treasure – in particular, our economic ship of state—the Congressman believes passage of this bill is absolutely necessary. He was disappointed that it did not pass, but the House is already working on this bill again, and will reconvene this Thursday to begin bringing to a vote, again, this week.

Congressman Sestak concluded: “These are difficult times, but our nation has faced such times before. Our success as a nation today stems from our historic ability to overcome our greatest challenges by setting aside differences and working together for the common good. The solutions proposed are not perfect – but they are a start and an indication we still have the capacity to be great in the face of such challenges.”